

## THE DICHOTOMY OF FINANCIAL SECTOR AND INDIAN ONLINE RETAIL MARKET

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### ABSTRACT

*Financial sector is the backbone of any economy and it subsidizes immensely in the mobilisation and distribution of resources. Until the mid-nineties, corporate money related administration in India was a generally boring and serene action. Since then Indian economy has achieved high growth in an environment of macroeconomic and financial stability. India's way of changes has been not the same as most other developing business sector economies: it has been a deliberate, slow, wary, and relentless process, without many twists that could be seen in different nations. The money related framework was described by broad controls, for example, controlled loan costs, coordinated credit programs, frail keeping money structure, absence of legitimate bookkeeping and hazard administration frameworks and absence of straightforwardness in operations of major budgetary market members (Mohan, 2004b). In addition, a significant number of the more profound established issues of the Indian economy in the mid-nineties were likewise emphatically identified with the monetary area. The issue of monetary constraint in the feeling of McKinnon-Shaw (McKinnon, 1973; Shaw, 1973) over the top basic and smaller scale control that hindered budgetary development and expanded exchange costs, and so on. What have been the major contours of the financial sector reforms in India? What led to the cautious development of the financial sector of India? The multi-pronged approach towards overseeing capital record in conjunction with prudential and mindful way to deal with budgetary progression has ensured financial stability in contrast to the experience of many developing and emerging economies. As the economy rises a higher development way, and as it is subjected to more prominent opening and monetary coordination with whatever is left of the world, the financial sector needs all the considerable developments. The purpose of this study is to identify the relationships between the financial sector reforms and the Indian online retail market and how the existing scenario deals with the digital/online retailing business which represents more than 10 for every penny of the nation's Gross Domestic Product (GDP) and around 8 for each penny of the work, India being the world's fifth-biggest worldwide goal in the retail space. It also inspects the long term outlook as India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users*

**KEYWORDS:** Online Retail, E- Commerce & Economic Growth

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### INTRODUCTION

Through the 1990s, India presented across the board free market changes, including some identified with retail. From 2000 to 2010, shoppers in select Indian urban areas have progressively started to encounter the quality, decision, comfort and advantages of sorted out retail industry. India being a signatory to World Trade Organization's General Agreement on Trade-in-Services, which incorporates discount and retailing administrations, needed to open up the retail exchange segment to remote speculations. There were starting reservations towards this issue emerging from dread of employment misfortunes, get from worldwide market,

rivalry and loss of entrepreneurial chances to local people. Be that as it may, the legislature in a progression of moves opened up the retail part gradually to Foreign Direct Investment (FDI), thus paving its way to financial reforms. Money related area additionally encourages administration of different sorts of dangers. For instance, a financial unit may get a kick out of the chance to send its surplus store for a brief timeframe and another monetary unit might need to get to reserves for a more extended period. The story of retail in India during the last decade has been nothing less than a revolution shaped by world class designs, quality investment and engaging stakeholders. On one side of the verbal confrontation are the huge number of road and handcar merchants and little retail locations that have ruled Indian retailing for a considerable length of time. On the other side are these reforms or the multinationals trying to enter the Indian market seeking new opportunities in retailing.

## **OBJECTIVE**

The objective of this paper is threefold. First, it gives a synoptic account of the reforms in financial sector and Indian retail sector. Second, this is followed by an assessment of these reforms in terms of outcomes and the health of the financial sector. Finally, developing an insight into the current scenario and the long- term affect, the reforms would bring in the retail world considering the fact that it is entering the digital world at a rocket pace.

## **LITERATUREREVIEW**

### **Background of Financial Sector Reforms**

The Indian monetary arrangement of the pre-change period basically took into account the necessities of arranged advancement in a blended economy structure where the Government segment had a prevalent part in the financial action. As a feature of arranged advancement, the large-scale monetary approach in India moved from financial impartiality to financial activism

(Reddy, 2000). Such activism implied substantial formative uses, a lot of it to back long-development ventures requiring long haul fund. The sovereign was additionally anticipated that would raise stores at fine rates, and naturally at underneath the market rates for a private division. Before the finish of the eighties, the monetary framework was extensively extended. The coordinated and concessional accessibility of bank credit as for specific segments came about in bending the loan fee instrument, as well as unfavorably influenced the practicality and benefit of banks. The absence of acknowledgment of the significance of straightforwardness, responsibility and prudential standards in the operations of the keeping money framework drove additionally to a rising weight of non-performing resources. Since the start of changes in the mid-1990s, the Indian economy has accomplished high development in a situation of macroeconomic and budgetary soundness. The period has been set apart by expansive based financial change that has touched each section of the economy. These changes were planned basically to advance more noteworthy effectiveness in the economy through the advancement of more prominent rivalry. The account of Indian changes is at this point all around archived (Ahluwalia, 2002) all things considered, what is less refreshing is that India accomplished this increasing speed in development while keeping up cost and budgetary strength. Therefore of the developing openness, India was not protected from exogenous stuns since the second 50% of the 1990s. These stuns, worldwide and residential incorporated a progression of budgetary emergencies in Asia, Brazil and Russia, 9/11 psychological militant assaults in the US, outskirt pressures, sanctions forced in the fallout of atomic tests, political vulnerabilities, changes in the Government, and the present oil stun. Regardless, dependability could be kept up in money related markets. To be sure, expansion has been contained since the mid-1990s to a normal of around five for each penny, unmistakably lower than that of around eight for

every penny for each annum over the past four decades. At the same time, the strength of the monetary part has recorded exceptionally huge change. India's way of changes has been unique in relation to most other developing business sector economies: it has been a deliberate, slow, careful, and relentless process, without many twists that could be seen in other countries.

The primary period of financial changes that began in 1985 concentrated on expanding efficiency, new innovation import and viable utilization of HR. These endeavors were in accordance with the adjustments in business sectors, associations and creation ranges. In the second stage, starting in 1991-92, the administration went for decreasing monetary deficiency by opening the economy to outside speculations. Monetary segment changes amid this period concentrated on an adjustment of the arrangement system, change

In money related soundness of the substances and making of a focused situation. These changes focused on three interrelated issues viz.

- Strengthening the establishments of the banking system;
- Streamlining procedures, upgrading technology and human resource development; and
- Structural changes in the system.

The most recent decade saw a huge widening and extending of money related markets with the presentation of a few new instruments and items in managing an account, protection, and capital markets space. Amid this time, the Indian budgetary area (keeping the money, protection and capital markets) opened up to new private players including outside organizations. The new players received global prescribed procedures and present day innovation to offer a more complex scope of money related administrations to corporate, retail and institutional clients. The subsequent rivalry in the market acquired development, better client administration, and proficiency in the budgetary in India.

### **Financial Sector: Objective and Reforms**

Till the mid-1990s the Indian money related part could be depicted as an exemplary case of "budgetary constraint", by McKinnon and Shaw. Budgetary division changes started in the mid-1990s have endeavored to beat these shortcomings keeping in mind the end goal to improve the productivity of asset portion in the economy. Budgetary division changes were at the middle phase of the financial advancement that was started in India in mid-1991. This is somewhat on the grounds that the monetary changes itself occurred in the midst of two genuine emergencies including the money related area:

- The adjust of installments emergency that undermined the global validity of the nation and pushed it to the verge of default; and
- The grave risk of bankruptcy facing the managing an accounting framework which had for quite a long time disguised its issues with the assistance of deficient bookkeeping strategies. Besides, a large portion of the more profound established issues of the Indian economy in the mid-nineties was likewise unequivocally identified with the financial sector:

- The issue of budgetary constraint in the feeling of McKinnon-Shaw (McKinnon,1973; Shaw, 1973) incited by regulated loan fees pegged at unreasonably low levels; huge scale pre-emption of assets from the managing an accounting framework by the legislature to fund its monetary shortage;
- Excessive auxiliary and miniaturized scale direction that restrained monetary development and expanded transaction costs;
- Relatively deficient level of prudential direction in the financial sector; poorly created obligation and cash markets; and outdated (regularly primitive) innovative and institutional structures that made the capital markets and whatever remains of the money related framework highly inefficient.

### Indian Retail Sector- Objective and Reforms

India is the country having the most unorganized retail market. The overall retail market in India is likely to reach Rs 47 trillion (US\$ 792.84 billion) by FY 17, presenting a strong potential for foreign retailers planning to enter India. India is the 5th most favorable destination for international retailers. Of the total Indian retail market, 8% is made up by the organized retail segment, very small a compared to others like US (85%) This remains to be largely dominated by extensive number of little retailers comprising of the nearby kirana shops, proprietor kept an eye on general stores, physcists, footwear shops, clothing shops, paan and beedi (neighborhood betel leaf and tobacco) shops, pushcart peddlers, asphalt sellers, and so forth which together make up the un-sorted out retail industry. This section is evaluated to develop at a rate of just about 30% by 2015, and thus at a significantly speedier pace than the general retail advertise which is estimate to develop by 16% in a similar period. Until 2011, the Indian Central Government did not allow Foreign Direct Investment (FDI) in multi-brand retail. This kept outside gatherings from any proprietorship in general stores, accommodation stores or other retail outlets. In late 2012, the Government of India introduced a Foreign Direct Investment policy which allows retailers of foreign nations to own up to 51 per cent in multi-brand retail and 100% in single brand retail. Considering 2013 situation, India loose sourcing and venture rules for general stores or the supermarkets. It permitted retailers to meet 30 percent sourcing prerequisite more than 5 years at first and said they just need to contribute 50 percent of an "underlying" obligatory speculation of \$100 million in setting up icy stockpiles and distribution center

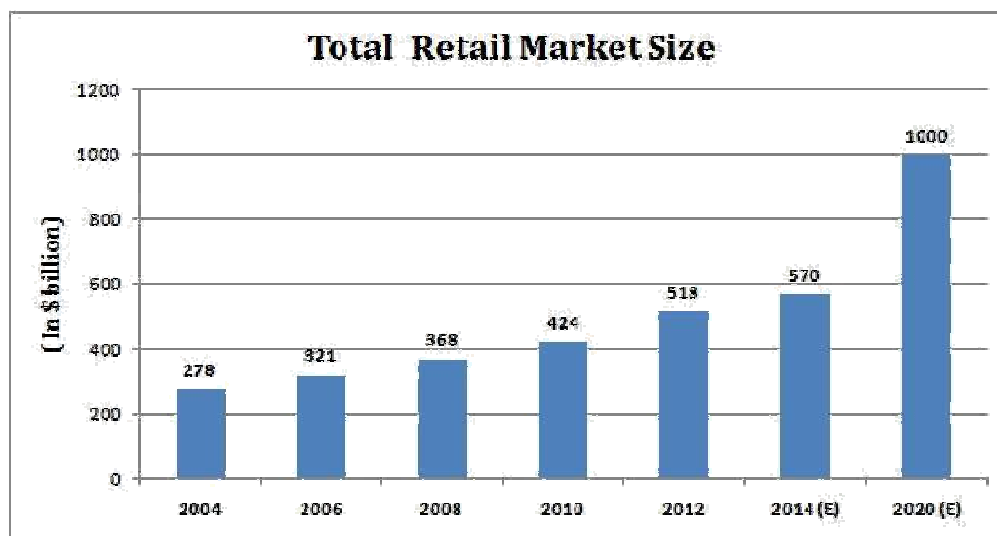


Figure 1: Total Retail Market Size

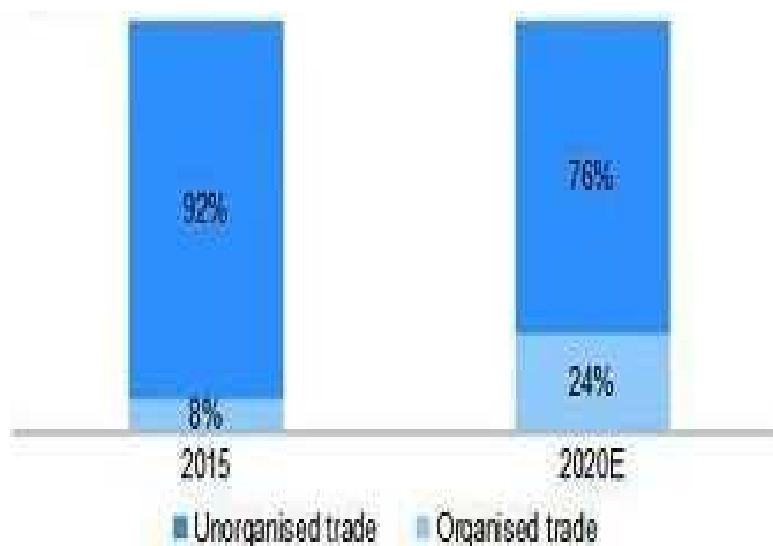


Figure 2: Significant Scope for Expansion in Organised Retail

### Online Retail Market

The Indian online retail industry has been striding a wide margin in the course of recent years because of a computerized insurgency. The pattern is relied upon to proceed as the online retail industry is evaluated to touch the sign of \$14.5 billion by 2018. The current market size of the online retail part has been pegged at \$3.5 billion. The real explanations behind remarkable development in online retail industry incorporate expanding infiltration of versatile Internet, the requirement for simplicity of shopping, time comfort, and higher portability. Some different elements helping the online retail industry seeing great development incorporate advanced mobile phones offering availability to web-based shopping, yearnings of level II and III urban areas, ladies turning out to be more educated, developing recognition around marked items, hasty purchasing, and strategic accommodation. Of the aggregate, online clothing deals keep on capturing a more prominent share of Indian retail web based business as a class alongside the PC and shopper hardware segment, fuelling the general market development. PC and customer hardware, alongside clothing and embellishments, represent 42% of the aggregate retail e-commerce sales.

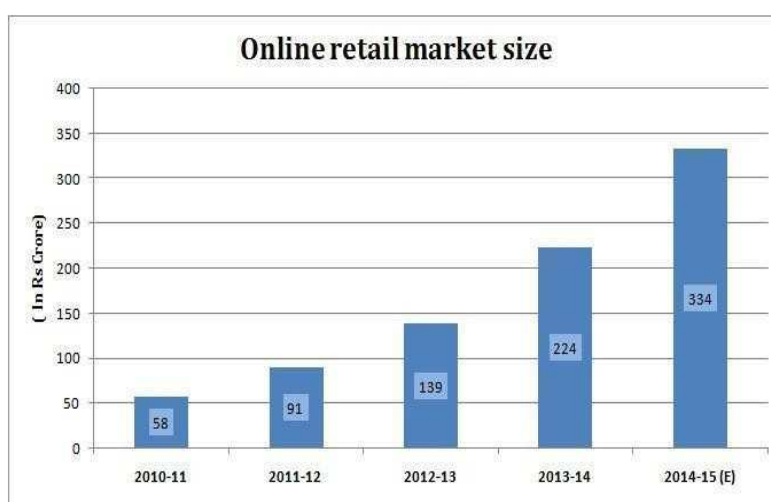


Figure 3: Online Retail Market Size

## Internet Users in the World

**Table 1: Internet Users in the World**

Year	Internet	Penetration	World	Non-Users	1Y	1Y	User	World
	Users**	(% of Pop)	Population	(Internet Less)	User	Change		Pop.
					Change			Change
2016*	<b>3,424,971,237</b>	46.1 %	7,432,663,275	4,007,692,038	7.5 %	238,975,082		1.13 %
2015*	<b>3,185,996,155</b>	43.4 %	7,349,472,099	4,163,475,944	7.8 %	229,610,586		1.15 %
2014	<b>2,956,385,569</b>	40.7 %	7,265,785,946	4,309,400,377	8.4 %	227,957,462		1.17 %
2013	<b>2,728,428,107</b>	38 %	7,181,715,139	4,453,287,032	9.4 %	233,691,859		1.19 %
2012	<b>2,494,736,248</b>	35.1 %	7,097,500,453	4,602,764,205	11.8 %	262,778,889		1.2 %
2011	<b>2,231,957,359</b>	31.8 %	7,013,427,052	4,781,469,693	10.3 %	208,754,385		1.21 %
2010	<b>2,023,202,974</b>	29.2 %	6,929,725,043	4,906,522,069	14.5 %	256,799,160		1.22 %

## Challenges a Head Fore-Commerce

- Heavy venture on Infrastructure: Companies need to contribute vigorously on the framework front, where inventories can be set securely. Nearness of numerous players in the E-business industry is making unfortunate rivalry driving them to offer lucrative plans to clients with a specific end goal to hold piece of the overall industry.
- High Failure of Payment passages: A high disappointment rate at installment entryway could well hamper the development of internet business industry. Albeit, most parts of India have developed exponentially, web and internet business appeared to fall behind as of not long ago. A blast of web use, particularly versatile Internet, has brought on numerous new business visionaries to concentrate on innovation new companies rather than conventional organizations.
- Lower Internet entrance: India's online business industry is still in its early stages. Web based business contributes just 0.6% of the nation's GDP against 1-3% for different nations, with just 11% of India's online populace executing on the web against 64% for the US and more than 40% for China. Postal address is not institutionalized in India. There are numerous strategic issues related with the online buys, which can hamper the development of an industry.

## CONCLUSIONS

The financial sector is the lifeline or rather the locomotive of growth of any economy which has its strings attached to various other sectors. Likewise, the retail part has assumed a wonderful part all through the world in expanding profitability of buyer merchandise and ventures. The Retail Industry in India has approached as a standout amongst the most dynamic and quick paced enterprises with a few players entering the market. Yet, every one of them has not yet tasted achievement due to the substantial beginning speculations that are required to earn back the original investment with different organizations and contend with them. Remembering the current FDI changes or the budgetary division changes the Indian Retail Industry is slowly crawling its way towards turning into the following blast industry. It seems to be graduating at a rocket pace. Increasing FDI in the retail segment is also expanding the market size and enhancing productivity. However, the share of e-Commerce is growing steadily with the digitisation of the economy. Customers have a constantly expanding selection of items at the most minimal rates. Online business is presumably making the greatest disturbance in the retail business and this pattern will proceed in the year to come. Nearly everything is sold on the web now and this implies essentially the greater part of the retail business confronts the test of either being a piece of internet business or taking it head on. All things considered, the long haul viewpoint for the business stays to be sure on the back of

rising wages, great socioeconomics, section of outside players and expanding urbanization.

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